

## **INTERNAL SERVICE FUNDS**

Internal Service Funds are used to account for the financing of goods or services provided by one fund or department to another fund or department on a cost reimbursement basis. The City of Sugar Land has four internal service funds: Property Insurance, Employee Benefits, Fleet Replacement and High Technology Replacement.

### **Property Insurance Fund**

Accounts for the activities of the City's property and casualty insurance. Coverage includes general liability, law enforcement, public official and employees liability, auto liability, physical damage and multi-peril, airport liability, mobile equipment, real and personal property. Total coverage for real and personal property is \$105.1 million with a \$10,000 per occurrence deductible on most coverage. The costs of the annual premiums are funded in the operating funds, while this fund accounts for uninsured and deductible claims.

#### **Fiscal Year 2005/06**

Total revenues from insurance recovery and interest income are projected to be \$59,800 while expenses from claims and deductibles total \$108,500. Transfers in from the General Fund, Utility Fund, and Airport Fund totaling \$12,500 will be made as budgeted. Projected retained earnings at 9/30/06 are \$148,312. While the Property Insurance Fund accounts for uninsured and deductible claims for the City's property and casualty insurance, claims cannot be reasonably predicted and budgeted. As such, the Financial Management Policy Statements set a fund balance that approximates the last three years average annual expenses excluding extraordinary claims.

#### **Fiscal Year 2006/07**

Revenues are anticipated to total \$55,500 with insurance claims recovery of \$50,000 and interest income of \$5,500. Based on claim history, expenses totaling \$92,000 are budgeted for fiscal year 2006/07. Retained earnings at 9/30/07 are estimated at \$111,812. Based on the three-year average of expenses, the retained earnings should be at least \$101,607.

### **Employee Benefits Fund**

Accounts for all financial resources associated with employee benefits, excluding worker's compensation and retirement, provided to employees. Most employee health and dental benefits are covered at 100% by the City depending on the medical plan chosen, while a lesser percentage of dependent care coverage is funded. Employees choosing dependent coverage reimburse the City for premiums through payroll deductions. Additional coverages include, but are not limited to, short-term disability, voluntary life, dependent life insurance, vision, and cancer insurance; prepaid legal services and savings bonds are also available to purchase. The City also pays 100% of long-term disability and accidental death and dismemberment, and provides a \$30,000 life insurance policy for all full-time employees.

#### **Fiscal Year 2005/06**

Total revenues, comprised of contributions from the City employees and retirees, interest income and other reimbursements, are projected to be \$4,127,429. Projected expenses total \$3,999,243 and include insurance premiums, administrative fees, and unemployment compensation. Projected retained earnings at 9/30/06 are \$758,510, an increase of \$141,907 over budgeted retained earnings due to savings in premiums compared to budget and savings from vacant positions.

#### **Fiscal Year 2006/07**

Revenues are estimated to be \$4,559,278 including interest income, and expenditures total \$4,747,274. The increase over fiscal year 2005/06 reflects anticipated increases of 12% in medical and 5% in dental insurance rates as well as full year expenses of new positions budgeted mid-year for fiscal year 2005/06, and eighteen additional full-time positions for fiscal year 2006/07. Base City contributions to the fund total \$3,355,749, which equates to \$6,079 per employee for 570 total budgeted full-time positions. Part-time employees are not eligible for coverage. The budget incorporates employee contributions based on current enrollment and dependent contribution rates.

The current medical insurance contract expires December 31, 2006 with increases in premiums budgeted beginning in January 2007. Benefit costs and City contributions for the additional full-time positions for fiscal year 2006/07 are pro-rated based on the budgeted hire date for each position. Since most new positions are not budgeted for the entire fiscal year, the calculation of the average City contribution per employee does not include these employees or expenditures. The fiscal year 2006/07 budget plans a draw down of fund balance by \$187,996 for an ending balance at 9/30/07 of \$570,514. As this fund is based on set premiums, no minimum fund balance policy has been established.

### **Fleet Replacement Fund**

Provides centralized accounting and management for the City's rolling stock of equipment and ensures sufficient funding for replacement of worn-out or obsolete fleet equipment. Annually, in conjunction with the budget process, an inventory is made of all fleet equipment. The compiled list is reviewed and rated by the Fleet Maintenance Supervisor and each vehicle or piece of

equipment is assigned a code that reflects its working condition. The Fleet Division prepares a list of vehicles recommended for replacement based on the criteria in the policy, and Purchasing provides estimated replacement prices. The vehicles on the recommended list may not be the actual vehicles replaced in the upcoming budget year, due to constantly changing vehicle conditions. Annual contributions are funded through operating transfers from the participating funds based on purchase price and useful life of each vehicle. Fire trucks do not contribute to, nor do they get purchased from this fund; they are purchased through lease/purchase financing agreements. The existing inventory covered by the Fleet Replacement Fund is estimated at \$4.2 million. Vehicles are added to the inventory list in the fiscal year purchased, and begin contributing to the fund the following fiscal year to ensure adequate funds are available when replacement is due.

#### Fiscal Year 2005/06

The projected contributions, auction proceeds, and other revenues for total \$681,530. Expenses for replacement of 38 vehicles and related equipment total \$662,106, leaving an ending balance of \$1,128,410, \$42,554 less than budgeted due to replacement of a police vehicle and a fire vehicle that were wrecked during the year. Insurance proceeds partially offset the increase in expenditures. Another factor in the decrease in anticipated ending balance is the recognition of auction proceeds for first-time replacement vehicles in the operating fund versus the fleet replacement fund, which is a change in accounting practices from prior years.

#### Fiscal year 2006/07

Revenues from contributions, interest income and auction proceeds are estimated to be \$836,860. Replacement of current identified vehicles is estimated to cost \$759,077 for a total of 28 vehicles including 13 vehicles for the Police Department, 12 trucks and cars, a jet unit, light bars and 2 trailers. Also included in budgeted expenses are funds to place vehicles in operation once received, such as decal work and installation of electronic equipment. The estimated balance at 9/30/07 is \$1,206,194. The fund has a minimum fund balance policy of 10% of inventory value.

#### **High-Technology Replacement Fund**

Provides centralized accounting and management for the City's high-tech equipment, which includes data processing equipment, radar and telecommunications equipment, such as radios and public safety communications equipment. The High Tech Replacement Fund does not cover telephones, cell phones, pagers, and personal productivity equipment such as PDA's and personal printers. The existing inventory covered by the High Tech Replacement Fund is estimated at \$3.5 million. This fund operates in the same manner as the Fleet Replacement Fund. The Information Technology staff assigns condition codes. After review and approval, the replacement list is compiled and scheduled through the annual budget process.

#### Fiscal Year 2005/06

Projected revenues for fiscal year 2005/06 total \$473,265 and expenses are projected at \$523,493, which is \$112,001 less than budgeted due to lower than anticipated hardware costs. Expenses include computers, replacement of the AS/400 and installation and upgrade of the City's H.T.E. system to Naviline, automatic external defibrillators for the fire trucks, and public safety radios. The projected ending balance at 9/30/06 is \$1,143,719 an increase of \$111,916 over budgeted ending balance.

#### Fiscal Year 2006/07

Estimated contributions from participating funds total \$493,217 and include \$1,000 in anticipated auction proceeds and \$50,000 interest income for the fund. Contributions to the fund include payments for replacement of the following items according to the schedule outlined in the High Tech Replacement policy: thermal imaging cameras, night vision goggles, handheld computers, defibrillators, radars, audio-visual equipment, radios, computers and printers. Total expenditures of \$415,000 include \$180,000 for replacement of 95 computers, 2 routers, 5 switches, and other miscellaneous equipment, \$10,000 for installation, and \$225,000 for public safety radios and equipment. The ending balance at 9/30/07 is estimated at \$1,221,936. This fund has a minimum fund balance policy of 10% of estimated inventory value.

**CITY OF SUGAR LAND**  
**INTERNAL SERVICE FUND - PROPERTY INSURANCE**  
**INCOME STATEMENT**

	FY 04/05	FY 05/06	FY 05/06	FY 06/07	Program	FY 06/07
	Actual	Current	Projection	Base	Enhance-ments	Budget
		Budget		Budget		
<b>OPERATING REVENUES</b>						
Insurance Claims Recovery	\$ 17,641	\$ 50,000	\$ 50,000	\$ 50,000	\$	\$ 50,000
Other Revenues						
<b>TOTAL OPERATING REVENUES</b>	<b>17,641</b>	<b>50,000</b>	<b>50,000</b>	<b>50,000</b>		<b>50,000</b>
<b>OPERATING EXPENSES</b>						
Professional Services						
General Liability	10,000	3,000	12,000	3,000		3,000
Airport Property		2,000	11,000	2,000		2,000
Automobile Liability	12,330	25,000	20,000	25,000		25,000
Errors & Omissions Liability		2,000	1,500	2,000		2,000
Physical Damage	21,923	30,000	28,000	30,000		30,000
Law Enforcement Liability	8,032	5,000	11,000	5,000		5,000
Mobile Equipment						
Real & Personal Property		50,000	25,000	25,000		25,000
Miscellaneous						
<b>TOTAL OPERATING EXPENSES</b>	<b>52,286</b>	<b>117,000</b>	<b>108,500</b>	<b>92,000</b>		<b>92,000</b>
<b>NET OPERATING INCOME</b>	<b>(34,645)</b>	<b>(67,000)</b>	<b>(58,500)</b>	<b>(42,000)</b>		<b>(42,000)</b>
<b>NON-OPERATING REVENUES</b>						
<b>(EXPENSES)</b>						
Transfer from Other Funds	67,000	12,500	12,500			
Interest Income	3,570	4,040	9,800	5,500		5,500
<b>TOTAL NON-OPERATING REVENUES</b>	<b>70,570</b>	<b>16,540</b>	<b>22,300</b>	<b>5,500</b>		<b>5,500</b>
<b>(EXPENSES)</b>						
<b>NET INCOME (LOSS)</b>	<b>35,925</b>	<b>(50,460)</b>	<b>(36,200)</b>	<b>(36,500)</b>		<b>(36,500)</b>
<b>RETAINED EARNINGS BEGINNING</b>	<b>148,587</b>	<b>184,512</b>	<b>184,512</b>	<b>148,312</b>		<b>148,312</b>
<b>RETAINED EARNINGS ENDING</b>	<b>\$ 184,512</b>	<b>\$ 134,052</b>	<b>\$ 148,312</b>	<b>\$ 111,812</b>	<b>\$</b>	<b>\$ 111,812</b>

**CITY OF SUGAR LAND**  
**INTERNAL SERVICE FUND - EMPLOYEE BENEFITS**  
**INCOME STATEMENT**

	FY 04/05 Actual	FY 05/06 Current Budget	FY 05/06 Projections	FY 06/07 Base Budget	Personnel Additions	FY 06/07 Budget
<b>OPERATING REVENUES</b>						
Contributions	\$ 3,957,046	\$ 4,248,712	\$ 4,104,653	\$ 4,461,249	\$ 80,029	\$ 4,541,278
Other Revenues						
<b>TOTAL OPERATING REVENUES</b>	<b>3,957,046</b>	<b>4,248,712</b>	<b>4,104,653</b>	<b>4,461,249</b>	<b>80,029</b>	<b>4,541,278</b>
<b>OPERATING EXPENSES</b>						
Insurance Premiums	3,395,533	4,135,143	3,868,924	4,559,105	80,029	4,639,134
Other	85,313	138,140	130,319	108,140		108,140
<b>TOTAL OPERATING EXPENSES</b>	<b>3,480,846</b>	<b>4,273,283</b>	<b>3,999,243</b>	<b>4,667,245</b>	<b>80,029</b>	<b>4,747,274</b>
<b>NET OPERATING INCOME</b>	<b>476,200</b>	<b>(24,571)</b>	<b>105,409</b>	<b>(205,996)</b>		<b>(205,996)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>						
Other Reimbursements	2,759		225			
Interest Income and Other	3,139	10,850	22,551	18,000		18,000
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>5,898</b>	<b>10,850</b>	<b>22,776</b>	<b>18,000</b>		<b>18,000</b>
<b>NET INCOME (LOSS)</b>	<b>482,098</b>	<b>(13,721)</b>	<b>128,185</b>	<b>(187,996)</b>		<b>(187,996)</b>
<b>RETAINED EARNINGS-BEGINNING</b>	<b>148,226</b>	<b>630,324</b>	<b>630,324</b>	<b>758,510</b>		<b>758,510</b>
<b>RETAINED EARNINGS-ENDING</b>	<b>\$ 630,324</b>	<b>\$ 616,603</b>	<b>\$ 758,510</b>	<b>\$ 570,514</b>		<b>\$ 570,514</b>
Budgeted participants	501	552	552	552	18	570
Operating cost per participant	\$ 6,948	\$ 7,741	\$ 7,245	\$ 8,455		\$ 8,329
Average Employee Contribution	\$ 1,633	\$ 1,606	\$ 1,681	\$ 1,758		\$ 1,702
City contribution per employee*	\$ 6,104	\$ 5,973	\$ 5,560	\$ 6,079		\$ 6,028

\* Most personnel additions are not budgeted for the full year; the budgeted cost per participant does not include these positions

**CITY OF SUGAR LAND**  
**INTERNAL SERVICE FUND - FLEET REPLACEMENT FUND**  
**INCOME STATEMENT**

	FY 04/05 Actual	FY 05/06 Current Budget	FY 05/06 Projections	FY 06/07 Base Budget	Program Enhance- ments	FY 06/07 Budget
OPERATING REVENUES						
Contributions						
Other Revenues						
<b>TOTAL OPERATING REVENUES</b>						
OPERATING EXPENSES						
Vehicles & Contractual Services	\$ 492,821	\$ 598,934	\$ 662,106	\$ 759,077		\$ 759,077
<b>TOTAL OPERATING EXPENSES</b>	492,821	598,934	662,106	759,077		759,077
<b>NET OPERATING INCOME</b>	(492,821)	(598,934)	(662,106)	(759,077)		(759,077)
NON-OPERATING REVENUES						
Miscellaneous Income		86,300	94,325	85,000		85,000
Interest Income	26,376	36,864	49,457	38,000		38,000
Transfers From Other Funds	527,518	537,748	537,748	713,860		713,860
<b>TOTAL NON-OPERATING REVENUES</b>	553,894	660,912	681,530	836,860		836,860
<b>NET INCOME (LOSS)</b>	61,073	61,978	19,424	77,784		77,784
CASH EQUIVALENTS BEGINNING	1,047,913	1,108,986	1,108,986	1,128,410		1,128,410
<b>CASH EQUIVALENTS ENDING</b>	<b>\$ 1,108,986</b>	<b>\$ 1,170,964</b>	<b>\$ 1,128,410</b>	<b>\$ 1,206,194</b>		<b>\$ 1,206,194</b>

**CITY OF SUGAR LAND**  
**INTERNAL SERVICE FUND - HIGH-TECH REPLACEMENT FUND**  
**INCOME STATEMENT**

	FY 04/05 Actual	FY 05/06 Current Budget	FY 05/06 Projections	FY 06/07 Base Budget	Program Enhance- ments	FY06/07 Budget
<b>OPERATING REVENUES</b>						
Contributions	\$	\$	\$	\$	\$	\$
Other Revenues						
<b>TOTAL OPERATING REVENUES</b>						
<b>OPERATING EXPENSES</b>						
Computer/Radio/Radar	476,173	635,494	523,493	415,000		415,000
<b>TOTAL OPERATING EXPENSES</b>	476,173	635,494	523,493	415,000		415,000
<b>NET OPERATING INCOME</b>	(476,173)	(635,494)	(523,493)	(415,000)		(415,000)
<b>NON-OPERATING REVENUES (EXPENSES)</b>						
Interest Income and Other	30,031	38,005	37,920	51,000		51,000
Operating Transfers In	354,345	435,345	435,345	442,217		442,217
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	384,376	473,350	473,265	493,217		493,217
<b>NET INCOME (LOSS)</b>	(91,798)	(162,144)	(50,228)	78,217		78,217
<b>CASH EQUIVALENTS BEGINNING</b>	1,285,745	1,193,947	1,193,947	1,143,719		1,143,719
<b>CASH EQUIVALENTS ENDING</b>	\$ 1,193,947	\$ 1,031,803	\$ 1,143,719	\$ 1,221,936	\$	\$ 1,221,936